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Canada

Frozen Potato Products

Annual

2006

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Report Highlights:

This report highlights developments in Canada's frozen potato products industry with an emphasis on the prospects for frozen french fry output in Canada and for frozen french fry trade.

Includes PSD Changes: No
Includes Trade Matrix: No
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Executive Summary

- * Canadian potato processor's output of frozen french fries during MY2005/06 slipped for the second consecutive year mostly in response to weaker product demand in the North American market.
- * Prospects for a weaker Canadian dollar in the current year may bolster the competitiveness of Canadian frozen french exports to the U.S. and overseas, leading to the probability of modest production increases at potato processing plants in Canada.
- * On a per capita basis, Canadians eat only about half the frozen french fries that Americans do. For 2004, the most recent data available, Canadian per capita consumption of frozen french fries was 13.48 kg (expressed as the fresh potato equivalent) compared to the U.S. per capita of 25.6 kg as reported by USDA's Economic Research Service.
- * Canadian frozen french fry exports in the marketing year ending June 2006 slipped 2% from the year earlier level to 955,597 metric tons. The decline marked the second consecutive drop in annual Canadian exports of frozen french fries. The two main factors contributing to lower exports were the rising value of the Canadian dollar and lower demand for frozen french fries in the United States.
- * At a value of \$530 million, Canadian frozen french fry exports to the United States ranked fifth among the top Canadian agricultural exports to the United States during MY2005/06, after beef, pork, live swine, and live cattle.
- * Canadian imports of frozen french fries from the United States in MY2005/06 reached a record \$50.2 million, up more than 30% from a year earlier. The quantity of U.S. frozen french fries exported to Canada soared 46% to 44,064 metric tons from 30,250 metric tons in MY2004/05. Most U.S. frozen french fry exports to Canada were destined for British Columbia, Ontario and Alberta.

Section I. Production

After years of annual production increases leading back to the mid-1990s, Canada's production of frozen french fries during MY2005/06 slipped for the second consecutive year mostly in response to weaker demand in the North American market. Post estimates production during MY2005/06 at 1,300,000 metric tons, down more than 3.5% from the previous year. For the current marketing year, July 2006 through June 2007, Canadian frozen french fry output is expected to stabilize near the 1.3 million metric ton level. Exports to the United States are the driving force behind Canadian frozen french fry production, and prospects for MY2006/07 point to increased exports to the U.S. given the waning popularity of the "low carb" diet that adversely impacted french fry consumption in recent years.

Prospects for a weaker Canadian dollar in the months ahead may also bolster the competitiveness of Canadian frozen french exports to the U.S. and overseas, leading to the probability of modest production increases at potato processing plants in Canada.

Country Commodity	Canada Potato Products, Frozen			(MT, Net Weight)					
	2004	Revised	Post	2005	Estimate	Post	2006	Forecast	Post
	USDA Official	Post Estimate	Estimate New	USDA Official	Post Estimate	Estimate New	USDA Official	Post Estimate	Estimate New
Market Year Begin		07/2004	07/2004		07/2005	07/2005		07/2006	07/2006
Beginning Stocks	140000	140000	140000	150000	140000	140000	0	140000	140000
Production	1365000	1365000	1350000	1325000	1325000	1300000	0	1360000	1310000
Imports	30528	30528	30626	35000	35000	44064	0	35000	50000
Total Supply	1535528	1535528	1520626	1510000	1500000	1484064	0	1535000	1500000
Exports	979286	979286	979310	970000	970000	955597	0	1000000	975000
Domestic Cons.	406242	406242	401316	400000	390000	388467	0	395000	385000
Ending Stocks	150000	150000	140000	140000	140000	140000	0	140000	140000
Total Distribution	1535528	1535528	1520626	1510000	1500000	1484064	0	1535000	1500000

Industry Developments

Potato Area

In recent years, the area planted to potatoes in Canada has declined reflecting declining consumption levels for fresh potatoes and for frozen french fries, the two major utilization channels for potatoes (the others are for chip, starch, dehydrated, other processed, and seed). Beginning in 2004, Canada's potato processors reduced contracted potato volumes reflecting sluggish consumer demand for frozen french fries. With North Americans already reducing their intake of fresh potatoes, the development had a significant impact on the area planted to potatoes. In 2003, Canadian potato farmers planted 185,100 hectares of potatoes. By 2006, according to Statistics Canada, planted potato area fell to 161,597 hectares, a decline of almost 13%.

Consumption

Statistics Canada reports frozen potato product disappearance on a fresh equivalent basis. For 2004, the most recent data available, Canadian per capita consumption of frozen potato products (mostly frozen french fries) was 13.48 kg (expressed as fresh equivalent). That level is roughly half the U.S. level of 25.6 kg as reported by the Economic Research Service of USDA for the same year.

Section II. Trade

Frozen French Fry Exports

Canadian frozen french fry exports in the marketing year ending June 2006 slipped 2% from the year earlier level. The decline marked the second consecutive drop in total annual Canadian exports of frozen french fries. The two main factors contributing to lower exports were the rising value of the Canadian dollar versus the U.S. dollar and reduced demand for frozen french fries in the United States, the largest market for Canadian potato processors. Sales to Japan and Mexico during MY2006/06 posted double digit increases, but combined exports to these destinations accounted for only 8% of total. Canadian frozen french fry exports to the United States accounted for 78% of total Canadian frozen french fry exports in MY2005/06. At a value of \$530 million, Canadian frozen french fry exports to the United States ranked fifth among the top Canadian agricultural exports to the United States during MY2005/06, after beef, pork, live swine, and live cattle.

Canadian Frozen French Fry Exports (HS 2004.10)

Marketing Years

Units: Metric Tons

Country	Jul 03-Jun 04	Jul 04-Jun 05	Jul 05-Jun 06	change
The World	1,015,554	979,310	955,597	-2%
United States	822,909	776,165	742,812	-4%
Japan	52,911	42,029	46,093	10%
Mexico	24,697	25,492	32,031	26%
Venezuela	8,350	21,384	18,953	-11%
China	6,277	13,301	16,516	24%
Guatemala	8,761	8,730	11,447	31%
Costa Rica	6,558	8,439	9,960	18%
Korea, South	7,942	10,778	8,401	-22%
Philippines	9,455	7,443	7,533	1%
Saudi Arabia	5,856	5,726	6,629	16%
All Others	61,838	59,822	55,222	-8%

Value of Canadian Frozen French Fry Exports

US\$ millions	Jul 03 Jun 04	Jul 04 Jun 05	Jul 05 Jun 06	% change
The World	662.4	675.1	679.1	1%
United States	538.0	538.2	529.5	-2%
Japan	40.9	34.2	43.1	26%
Mexico	9.6	12.3	16.2	32%
Venezuela	4.8	13.5	10.9	-19%
China	4.2	9.2	11.1	20%
Guatemala	5.3	5.1	6.8	33%
Costa Rica	3.6	4.6	5.9	27%
Korea, South	5.8	7.7	6.2	-19%
Philippines	5.9	5.5	5.8	5%
Saudi Arabia	4.2	4.2	5.8	39%

Source: Statistics Canada & World Trade Atlas

Frozen French Fry Imports

Partly reflecting the strengthening purchasing power of the Canadian dollar, Canadian imports of frozen french fries from the United States in MY2005/06 reached a record \$50.2 million, up more than 30% from a year earlier. As shown below, the quantity of U.S. frozen french fries exported to Canada soared 46% to 44,064 metric tons. Most were destined for British Columbia, Ontario and Alberta. Washington State, Maine and Illinois were the leading states supplying frozen french fries to Canada in MY2005/06.

Canadian Frozen French Fry Imports

Marketing Years

Units: Metric Tons, US\$ millions

HS 2004.10

Country	Quantity			%	Value \$mil.		
	Jul 03-Jun 04	Jul 04-Jun 05	Jul 05-Jun 06		Jul 03-Jun 04	Jul 04-Jun 05	Jul 05-Jun 06
The World	36,722	30,626	44,086	44%	33.95	38.45	50.27
U.S.	36,012	30,250	44,064	46%	33.43	38.09	50.22
Bulgaria	-	-	10	-	0.00	0.00	0.01
Japan	45	4	4	9%	0.06	0.01	0.01
Poland	-	-	3	-	0.00	0.00	0.00
Netherlands	537	354	2	-99%	0.34	0.33	0.01
All Others	128	18	4	-80%	0	0	0

Source: Statistics Canada & World Trade Atlas

Tariffs

Canadian Tariff Rates on Frozen French Fries		
HS 2004.10.00	Trade Agreement & Preferential Tariffs	MFN Rate
		6%
United States	FREE	
Commonwealth Caribbean Countries	FREE	
Least Developed Countries	FREE	
Mexico	FREE	
Chile	FREE	
Costa Rica	FREE	
Source: Canada Customs Tariff Schedule, January 1, 2006		

Other Frozen Potato Product Trade

Canadian trade in other frozen potato products is minor.

Canada: Exports of Other Frozen Potato Products

HS: 0710.10

Units: Metric Tons

EXPORTS			
TO...	Jul 03-Jun 04	Jul 04-Jun 05	Jul 05-Jun 06
The World	4,992	593	2,836
Cuba	-	-	1,440
Costa Rica	18	56	383
United States	4,597	253	358
South Africa	-	0	259
Mexico	150	30	137
Taiwan	-	-	101
Japan	158	215	72
Brazil	-	-	38
All Others	70	38	48

IMPORTS			
from...	Jul 03-Jun 04	Jul 04-Jun 05	Jul 05-Jun 06
The World	226	546	604
United States	209	481	517
Belgium	-	47	47
France	0	0	21
Egypt	4	6	5
Philippines	4	3	4
All Others	10	8	11

Source: Statistics Canada & World Trade Atlas

Section III. Marketing

Mandatory Nutrition Labeling

Canada introduced mandatory nutrition labeling for prepackaged food products effective December 12, 2005 and all imported products must meet the same labeling requirements as foods produced in Canada. Use of the U.S. nutrition panel on labeling is prohibited in Canada and only the Canadian nutrition panel is deemed acceptable for prepackaged products sold in Canada. There are differences in the U.S. and Canadian nutrition facts tables for daily intakes and in the definitions of zero "trans fats".

The Canadian Food Inspection Agency has a webpage dedicated to Canada's the new labeling regulations: <http://www.inspection.gc.ca/english/fssa/labeti/nutrition-pagee.shtml>

The webpage listed above provides a link to a Nutrition Labeling Toolkit to assist U.S. companies interested in bringing their processed potato product label into compliance with Canada's new nutrition labeling regulations.

Packaging and Labeling

For retail sale, Canada's Processed Product Regulations stipulate that the standard container sizes for frozen french fries are: 250 g; 500 g; 1 kg; 1.25 kg; 1.5 kg; and 2 kg. On December 3, 1998 the regulations were revised to include "any size over 2 kg but not over 20 kg." For U.S. exporters, the relaxed rule means they can export wholesale cartons of frozen french fries containing inner bags in the common U.S. food service industry sizes provided the inner bags have no markings. If inner bags are marked, full labeling requirements apply (bilingual labeling, ingredients, etc.).

Exporter Guide

U.S. processed food exporters interested in the Canadian market can consult the Exporter Guide prepared by FAS/Ottawa. The Exporter Guide for Canada is available on the FAS website under Attaché reports at www.fas.usda.gov. The Exporter Guide provides general information concerning Canadian regulatory requirements and details the FAS sponsored services available to U.S. exporters interested in entering the Canadian Food market.

Exchange Rates

Where prices and values in this report are expressed in Canadian dollars, the exchange rates are: 2002, C\$=US\$.6368; 2003, C\$=US\$.7135; 2004, C\$= US\$.7683; 2005, C\$= US\$.8253; mid-October, 2006, C\$= US\$.8800 approximately.

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